

STATE OF WASHINGTON
DEPARTMENT OF FINANCIAL INSTITUTIONS
SECURITIES DIVISION

IN THE MATTER OF DETERMINING) Order Number S-08-028-09-SC01
Whether there has been a violation of the)
Securities Act of Washington by:) STATEMENT OF CHARGES AND
) NOTICE OF INTENT TO ENTER
Seismic Shock Control Systems, Inc.;) ORDER TO CEASE AND DESIST, TO
Michael Axon;) IMPOSE FINES, AND
Edward Coumou;) TO RECOVER COSTS
Respondents)

THE STATE OF WASHINGTON TO: Seismic Shock Control Systems, Inc.
Michael Axon
Edward Coumou

STATEMENT OF CHARGES

Please take notice that the Securities Administrator of the State of Washington has reason to believe that Respondents, Seismic Shock Control Systems, Inc., Michael Axon, and Edward Coumou, have each violated the Securities Act of Washington and that their violations justify the entry of an order of the Securities Administrator under RCW 21.20.390 against each to cease and desist from such violations, to impose fines pursuant to RCW 21.20.395, and to recover costs pursuant to RCW 21.20.390(5). The Securities Administrator finds as follows:

TENTATIVE FINDINGS OF FACT

Respondents

1. Seismic Shock Control Systems, Inc. (“Seismic Shock”) is a Washington corporation with a business address in Marysville, Washington. Seismic Shock formerly used an office located in Arlington, Washington. Seismic Shock was in the business of developing

1 and manufacturing bearings that were to be used to protect buildings, bridges, and other
2 structures from damage due to seismic events. Seismic Shock was previously known as Axon
3 Shock Control Systems, Inc.

4 2. Michael Axon (“Axon”) was the founder of Seismic Shock, and served at
5 various times as the company’s President and CEO until he resigned in approximately
6 February 2006. At all relevant times, Axon resided in Washington.
7

8 3. Edward Coumou (“Coumou”) served as the President of Seismic Shock.
9 Coumou is a resident of Washington.

10 Nature of the Offering

11 4. Beginning in approximately August 2001 and continuing through at least March
12 2006, the Respondents offered and sold Seismic Shock common stock to nearly 300 investors
13 in Washington and other states, raising a total of approximately \$3 million.

14 5. In December 2002, a news article regarding Axon and Seismic Shock appeared
15 in the *Seattle Times*. The article, which was also posted on the Internet, reported that Axon
16 was “looking for investors” and included a link to Seismic Shock’s website.
17

18 6. The Respondents found investors in a number of ways. Seismic Shock’s
19 website included a link for prospective investors. Prospective investors were invited to
20 receive a copy of an offering memorandum by sending an e-mail to
21 invest@seismicshock.com. Coumou arranged for a group of investors to operate as “finders”
22 and recruit new investors in exchange for additional shares of stock. These finders solicited
23 and caused other persons to invest, by representing, among other things, that Seismic Shock
24

1 would be conducting an imminent public offering and by leading some investors to believe
2 they could earn returns “like Microsoft” or “equal to Microsoft.” In September 2003, Axon
3 sent a letter to Seismic Shock investors and offered to sell them additional shares of Seismic
4 Shock stock. In the letter, Axon encouraged investors to “share this investment opportunity
5 with others” and offered to assist them in presenting the investment to others.

6
7 7. Coumou and Axon met with prospective investors at different locations,
8 including the company’s office in Arlington. At one such meeting, Axon led an investor to
9 believe that Seismic Shock’s stock would double in value. Coumou also sent e-mails to
10 prospective investors, offering to sell them shares of Seismic Shock stock. In October 2006,
11 Coumou sent an e-mail to a prospective investor, stating that it was a “good time to buy”
12 Seismic Shock stock because the company had plans to become publicly traded. Coumou
13 also stated that shareholders are “free to sell their shares to any willing buyer at any time.”

14 Misrepresentations and Omissions

15 8. In the offer and sale of Seismic Shock stock, the Respondents made misleading
16 statements regarding the value of Seismic Shock stock. In a letter dated August 12, 2004,
17 Coumou informed Seismic Shock investors that the company’s stock price would be doubling
18 from \$5 per share to \$10 per share on August 25, 2004. In the letter, Coumou made a
19 “limited time” offer to sell additional shares of Seismic Shock for \$5 per share. The letter
20 failed to disclose that the share price was arbitrary and did not reflect the underlying value of
21 the company. In August 2005, Coumou sent a misleading letter to investors announcing that
22 the company had authorized a two-for-one stock split. The letter failed to disclose that the
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1 stock split only increased the number of outstanding shares and did not change the underlying
2 value of the company or generate any return to investors.

3 9. In the offer and sale of Seismic Shock stock, the Respondents failed to disclose
4 material information, which made the information that was disclosed, misleading to investors.
5 While some Seismic Shock investors were provided with written offering documents
6 (including a Private Placement Memorandum, a subscription agreement, a business plan, and
7 an accredited investor questionnaire), other investors received no written offering material
8 prior to their investment, and later received only stock certificates and correspondence. The
9 Respondents failed to provide several Seismic Shock investors with a Private Placement
10 Memorandum or other written document with disclosure of material information, including,
11 but not limited to, prior and intended use of offering proceeds, the compensation paid to Axon
12 and Coumou; and material information regarding the financial condition of Seismic Shock.
13 The Respondents also failed to disclose the speculative nature of the stock; the lack of an
14 established public market for the stock; and the fact that there was no assurance that a public
15 market would develop for the stock; and other risks associated with the investment.
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17 Registration Status

18 10. On March 12, 2004, Seismic Shock Control Systems Inc. filed claims of
19 exemption from registration with the Securities Division, pursuant to WAC 460-44A-504
20 (“Rule 504”) and WAC 460-44A-505 (“Rule 505”). Seismic Shock failed to comply with
21 Rule 504’s requirement that issuers file a notice of claim of exemption at least 10 business
22 days prior to the first sale to a resident of Washington. Seismic Shock also failed to comply
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1 with Rule 505's requirement that issuers file a notice of claim of exemption within 15 days of
2 the first sale to a resident of Washington. The Respondents failed to comply with other
3 conditions of Rule 504 and 505, by among other things, paying commissions in the form of
4 stock and by engaging in general solicitation.

5 11. On or about March 17, 2004, counsel for Seismic Shock notified the Securities
6 Division that it was withdrawing its claims of exemption pursuant to Rule 504 and 505.
7 Seismic Shock Control Systems Inc. is not currently registered to sell its securities in the State
8 of Washington.

9 12. Michael Axon is not currently registered as a securities salesperson or broker-
10 dealer in the State of Washington and has not previously been so registered.

11 13. Edward Coumou is not currently registered as a securities salesperson or broker-
12 dealer in the State of Washington and has not previously been so registered.

13 Based upon the Tentative Findings of Facts the following Conclusions of Law are made:
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15 **CONCLUSIONS OF LAW**

16 1. The offer or sale of Seismic Shock Control Systems Inc. stock described above
17 constitutes the offer or sale of a security as defined in RCW 21.20.005(10) and (12).

18 2. The offer or sale of said securities is in violation of RCW 21.20.140 because no
19 registration for such offer or sale is on file with the Securities Administrator, and no valid claim
20 of exemption for such offers and/or sales existed.
21

1 3. Michael Axon and Edward Coumou have each violated RCW 21.20.040 by
2 offering or selling said securities while not registered as a securities salesperson or broker-dealer
3 in the State of Washington.

4 4. The offer or sale of the investments described above was made in violation of
5 RCW 21.20.010 because, as set forth in the Tentative Findings of Fact, the Respondents made
6 misstatements of material facts or omitted to state material facts necessary in order to make the
7 statements made, in light of circumstances under which they were made, not misleading.
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9 **NOTICE OF INTENT TO ORDER THE RESPONDENT TO CEASE AND DESIST**

10 Pursuant to RCW 21.20.390(1), and based on the above Tentative Findings of Fact and
11 Conclusions of Law, the Securities Administrator intends to order that Seismic Shock Control
12 Systems, Inc., Michael Axon, and Edward Coumou, and their agents and employees, each cease
13 and desist from violations of RCW 21.20.140, RCW 21.20.040, and RCW 21.20.010.

14 **NOTICE OF INTENT TO IMPOSE FINES**

15 Pursuant to RCW 21.20.395, and based upon the Tentative Findings of Fact and
16 Conclusions of Law, the Securities Administrator intends to order that:

- 17 a. Respondent Michael Axon shall be liable for and pay a fine of \$5,000; and
18 b. Respondent Edward Coumou shall be liable for and pay fine of \$5,000.
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20 **NOTICE OF INTENT TO RECOVER COSTS**

21 Pursuant to RCW 21.20.390(5), and based upon the Tentative Finds of Fact and
22 Conclusions of Law, the Securities Administrator intends to order that the Respondents Seismic
23 Shock Control Systems, Inc., Michael Axon, and Edward Coumou, shall be liable for and pay the
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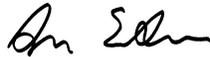
1 Securities Division the costs, fees, and other expenses incurred in the conduct of the
2 administrative investigation and hearing of this matter of not less than \$5,000.

3 **AUTHORITY AND PROCEDURE**

4 This Statement of Charges is entered pursuant to the provisions of chapter 21.20 RCW
5 and is subject to the provisions of RCW 34.05. The Respondents may each make a written
6 request for a hearing as set forth in the NOTICE OF OPPORTUNITY TO DEFEND AND
7 OPPORTUNITY FOR HEARING accompanying this order.
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9 If a Respondent does not request a hearing, the Securities Administrator intends to adopt
10 the above Tentative Findings of Fact and Conclusions of Law as final and enter a final order to
11 cease and desist and impose the fines and costs sought, as to that Respondent.
12

13 Dated and Entered this 16th day of March, 2010.

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15
16 SUZANNE SARASON
17 Chief of Enforcement

18 : Presented by:

19 

20 Robert Kondrat
21 Enforcement Attorney
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